

Submission

No 51

INQUIRY INTO THE UTILISATION OF RAIL CORRIDORS

Organisation: Infrastructure Partnerships Australia

Name: Mr Adrian Dwyer

Position: National Manager - Policy

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Inquiry into the Utilisation of Rail Corridors



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For more
information
please contact:

Brendan Lyon
Chief Executive Officer
Infrastructure Partnerships Australia
PO Box R1804 Royal Exchange
Sydney, NSW, 1225
T +61 2 9240 2050
E brendan.lyon@infrastructure.org.au

Adrian Dwyer
National Manager, Policy
Infrastructure Partnerships Australia
PO Box R1804 Royal Exchange
Sydney, NSW, 1225
T +61 2 9240 2050
E adrian.dwyer@infrastructure.org.au

Anna Bardsley
Policy Officer
Infrastructure Partnerships Australia
PO Box R1804 Royal Exchange
Sydney, NSW, 1225
T +61 2 9240 2062
E anna.bardsley@infrastructure.org.au

INTRODUCTION

The construction and maintenance of NSW's rail infrastructure requires a substantial taxpayer investment. In the context of a constrained balance sheet, and increasing competition for government resources, any opportunity to improve the utility of mass transit and enhance the investment proposition of rail infrastructure should be maximised.

The Legislative Assembly Committee on Transport and Infrastructure Inquiry into rail corridor utilisation therefore represents a timely and important opportunity to explore the structures and tools which could be deployed to derive a greater benefit for taxpayers from their investment in rail infrastructure. Infrastructure Partnerships Australia welcomes the opportunity to contribute to the Inquiry on this vital policy issue.

Infrastructure Partnerships Australia is the nation's peak infrastructure body. Our mission is to advocate the best solutions to Australia's infrastructure challenges, equipping the nation with the assets and services we need to secure enduring and strong economic growth and importantly, to meet national social objectives.

Our Membership is comprised of the most senior industry leaders across the spectrum of the infrastructure sector, including financiers, constructors, operators and advisors. Importantly, a significant portion of our Membership is comprised of government agencies.

Infrastructure Partnerships Australia draws together the public and private sectors in a genuine partnership to debate the policies and priority projects that will build Australia for the challenges ahead.

The infrastructure backlog in NSW is compounded by the constrained balance sheet of the NSW government. The 2011-12 New South Wales Budget estimates Total State Sector Net Financial Liabilities at 132.2 per cent of revenue this financial year. Over the next 40 years, on a 'no policy change' basis, expense growth in social security and welfare will run at 6.6 per cent and health will be 6.2 per cent where revenues are projected to average 4.9 per cent growth. Set against this picture of a balance sheet under pressure, and social sector expense growth outstripping revenue growth, the NSW Government's capacity to fund required infrastructure projects is severely constrained.

It is critical NSW address its infrastructure deficit and investment backlog. According to the Australian Bureau of Statistics, the population of Sydney, based on current trends in births, deaths and migration, is expected to grow from 4.3 million to 7 million by 2056¹. In this context innovative solutions for funding infrastructure projects in NSW are needed. The utilisation of land near rail corridors and train stations is an opportunity for government to tap into the value created by the building of rail infrastructure. This new stream of income

¹ Australian Bureau of Statistics 2008, *Population Projections, Australia 2006-2101*.

can be used for partially funding investments in new infrastructure and the maintenance of existing infrastructure.

Infrastructure Partnerships Australia's submission to the NSW Legislative Assembly Committee on Transport and Infrastructure Inquiry into the utilisation of rail corridors focuses on this opportunity, by outlining a suite of mechanisms which can be used to capture the value created by the provision of mass transit infrastructure. The submission will examine opportunities to use Joint Development, Benefit Assessment Districts (BAD) and Tax Increment Financing (TIF) at stations and precincts – including case studies of best practice from Hong Kong and the United States. The submission also considers opportunities to increase the utility, amenity and cost-effectiveness of transport infrastructure through use of planning and land use tools such as Transit Oriented Development (TOD).

VALUE CAPTURE

Capturing a portion of the value created by investment in rail infrastructure represents a key opportunity for governments to expand the suite of funding options used to sustain a continued investment in infrastructure.

The concept of value capture can be best explained by examining each component individually. Value – refers to the benefits received by a property owner when infrastructure is built in close proximity to their property. In the case of public transport, a high premium is placed on access to efficient and reliable transport, meaning when a railway line and stations are built the price of land close to the rail corridor and adjacent to stations will increase in value relative to land further from the new amenities. Capture – relates to the idea that government can recoup a portion of that value and use it to offset the cost of building the infrastructure or to fund future infrastructure projects. The concept of value capture is informed by the principles of equity and fairness in taxation as it seeks to ensure that the benefits of public infrastructure investment are shared by all of the community².

The focus of value capture mechanisms - the financial value of infrastructure, is co-dependent on the utility value that patrons derive from its use. A reliable, efficient and fast train service is crucial to maximising the value that can be captured following the provision of infrastructure. Equally, high quality infrastructure services are critical to maximise the sustainability, liveability and productivity of NSW.

² Verma, K 1998, *Readings in Indian Railway Finance*, Academic Foundation, Delhi.

The ideas of value capture can be implemented using an array of policy mechanisms. Broadly these policies can be divided into two groups, taxation mechanisms and land use policies³. Governments can utilise existing or new taxation schemes to capture the value uplift of land in close proximity to new rail infrastructure. Most commonly this occurs through government levying a tax on land holders whose property value has increased as a result of new transport infrastructure being built. Conversely in situations where governments own land or can buy land at pre-infrastructure prices, they can sell, lease or grant development rights for land that is located near public transport, capitalising on the land's increased value, resulting from its proximity to new rail infrastructure.

The potential application of value capture models may represent a well-timed opportunity for NSW. In recent decades, the budget capacity to invest in critical infrastructure has diminished, meaning that NSW has been unable to maintain the development of infrastructure at the same pace as the growth of the State. This growing fiscal gap means presently NSW is unable to address critical problems such as congestion, hospital waiting lists and a lack of sufficient social infrastructure. This legacy is perhaps most evident across the NSW State transport system. Long term under-investment has seen the state's transport network fail to meet the demands of growth and fall behind its domestic and international competitors.

The following sections on Stations and Precincts outline some of the specific opportunities to deploy value capture and utility enhancement principles on the NSW rail network. While not exhaustive, the submission offers the Committee some guidance on options to derive greater utilisation from the taxpayers' substantial investment in rail infrastructure.

STATIONS

The opportunity may exist to develop or redevelop the airspace above and the land around existing and future NSW train stations for mixed residential and commercial purposes. Capitalising on this opportunity will have clear benefits for NSW. The development of these land holdings through partnerships with the private sector is a mechanism through which the NSW government can access the increase in land value created by the initial investment into rail infrastructure. Beyond value capture, station developments can be a component of a wider precinct strategy of TOD; a land use strategy which aims at creating a network of well-designed urban communities focused around transit stations⁴ (Figure. A is an example of TOD from Arlington Virginia. The coloured green spots represent stations; the larger circles represent the TOD that surrounds the station).

³ Salon, D & Shewmake, S 2011, *Opportunities for Value Capture to Fund Public Transport: a comprehensive review of the literature with a focus on East Asia*.

⁴QLD Department of Infrastructure and Planning 2010, *Transit Orientated Development: guide for practitioners in Queensland*.

Figure A. TOD Arlington Virginia



Source: Reconnecting America <http://reconnectingamerica.org/>

The implementation of value capture at train stations can be done using several strategic land use policies, collectively identified under the umbrella concept of Joint Development. Joint development refers to a partnership between the public and private sector, in which the public sector becomes involved in property development in the area around train stations in an effort to re-capture some of the value created by government's investment into transport infrastructure⁵ (See Figure B. for an example of joint development).

Several different joint development models exist, broadly divided between those where there is public ownership of property or development rights and those where there is private ownership of property or development rights⁶. Under public ownership models, public property can be sold or leased for development purposes, or property ownership can be retained and the development rights to property can be sold or leased. Under private ownership models government can allow the re-zoning of a property to allow higher density

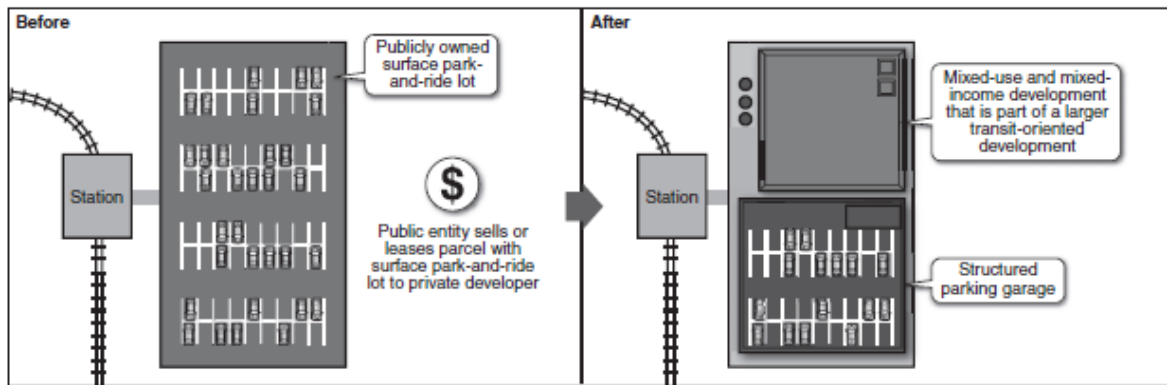
⁵ Centre for Transport Studies 2009, *Value Capture for Transportation Finance*, University of Minnesota.

⁶ Ibid.

and/or mixed-use development in exchange for private sector contributions towards transport infrastructure.

Joint development models are also applied in situations of station air rights development. Government can establish development rights in the air space above a train station, and lease or sell these development rights to the private sector. Air rights transactions take two different forms. The government can choose to sell both the ground and air rights of a station to a single private sector buyer or Government can horizontally divide their land parcel and sell or lease the smaller land parcels to a group of private sector buyers⁷.

Figure B. Example of Joint Development



Source: US Government Accountability Office 2010, Public Transportation, Report to Congressional Committees

The joint development of land by the government and private sector will only serve a value capture purpose if the development enables government to 'capture' a portion of the increase in value created by the investment in rail infrastructure.

Once land has been sold or leased at a post development price the revenue received by government can be delivered in a variety of forms including a single lump-sum payment for which government sells off land or development rights to the private sector, a revenue sharing arrangement in which government receives a continuing stream of revenue from the private sector, or a cost-sharing arrangements where private sector contributes to the cost of constructing and maintaining the supporting transport infrastructure.

The development of land above and next to train stations can also deliver benefits for NSW beyond the revenue derived from value capture. The construction of development around train stations can facilitate the creation of a TOD in the station's wider precinct. The creation of a TOD involves the clustering of medium to high density, mixed development within 800

⁷ Ibid.

metres of a frequent and accessible transit service⁸. It is important to note that TOD is not an automatic consequence of joint development; TOD will only occur when TOD principles are included within the design of joint development projects and as part of a broader strategic precinct plan.

The building of joint development projects at train stations, informed by the principles of TOD, will have several benefits for NSW:

- *Reduce Congestion:* People who live and work in close proximity to a train station are more likely to use the service, while people who are located further away from train stations are more likely to use a motor vehicle for the entire journey. By enabling a greater number of people to live and work near train stations, the NSW Government can encourage more train over car trips, reducing the level of congestion on NSW's roads.
- *Increased Patronage:* A well occupied precinct that contains a balance of office, retail and residential spaces, in close proximity to a train station, will encourage greater utilisation of the rail service. Improved patronage can make the service more cost-effective – thereby improving the investment proposition of the initial mass transit infrastructure⁹.
- *Improved Amenity:* building a combination of residential and commercial developments in close proximity to train services enables people to live and work near rail transport, reducing the distance people have to travel in order to access goods, services and employment opportunities.¹⁰

It should be noted that TOD, by itself, is not a complete solution to problems such as congestion and low levels of transit patronage. A number of complex factors, such as the quality of transit services or the capacity of the wider transport network will contribute to the effectiveness of the TOD in helping to ease congestion and increase the utility of transit networks. Nevertheless, TOD is a prudent planning strategy which will, as part of a broader network strategy, help to alleviate transport problems such as congestion, patronage limits and integration.

The implementation of joint development models at NSW train stations represents a significant opportunity for NSW to increase the available capital to invest in mass transit infrastructure. The joint development of land by the NSW Government and the private

⁸ QLD Department of Infrastructure and Planning 2010, *Transit Orientated Development: guide for practitioners in Queensland*.

⁹ Hale, C & Charles, P 2006, *Making the Most of Transit Orientated Development Opportunities*, The Australian Transport Research Forum.

¹⁰ City of London (Canada) *Discussion Paper: Transit-Orientated Development*

sector will enable the Government to access land value increases, created by investment in rail infrastructure, and direct this new revenue source towards funding critical infrastructure projects in the state. Also, by including core TOD principles in the design of joint development projects, these value capture strategies can serve as a mechanism for the NSW Government to implement the principles of TOD in the areas surrounding NSW's train stations.

Sydney high passenger traffic level train stations (those on the City Circle loop) present a possible opportunity for joint development within the CBD. Redfern, Central, Town Hall, Martin Place and Circular Quay stations are all high passenger frequency and key interchange nodes, which experience high customer throughput every day. This high level of patronage means the station concourse, airspace and adjacent land – if planned for, designed and delivered in a suitable way – is a potentially valuable commercial real estate holding for the Government.

Many of these stations are in a poor condition, with a sub-optimal legacy design and have not experienced wholesale renovation for many decades. Land parcels around and above these stations, often owned by Government, are under-utilised; small cafes and newsagents can be found on the outskirts of the stations' zone. Where retail development has occurred it has been peripheral and piecemeal – often impeding passenger flow and failing to capitalise fully on the commercial opportunities presented by the high stations throughput.

The renovation of each of these five stations could be bundled with commercial and residential lease hold opportunities under a Public Private Partnership (PPP) model, in which the private sector would finance station redesign and renovation.

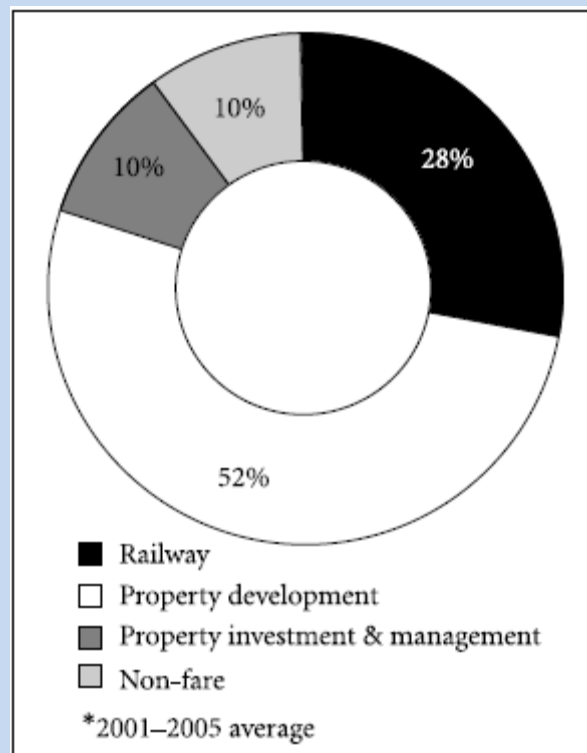
This model has the potential to substantially lower the call on tax-payer investment to renovate these stations, because it would allow the private sector to deliver innovative designs which maximise complementary revenue streams through a more strategic approach to leveraging complementary property development opportunities, such as high quality retail, commercial or residential lease hold opportunities.

A joint development of the high-traffic CBD stations under this model would allow for the redevelopment of Sydney's legacy CBD rail stations at substantially lower cost to the taxpayer while simultaneously delivering world-class facilities to rail commuters. The redevelopment would also deliver high-value retail real estate in the CBD.

BEST PRACTICE CASE STUDY: MTRC CORPORATION

Hong Kong Mass Transit Corporation (MTRC) is the part government, part private sector, owner-operator of Hong Kong’s largest rail service. The organisation is internationally renowned as one of the few transit organisations who are able to recoup the costs of their investment in rail infrastructure and occasionally return a profit¹¹. This, in large part, results from their application of value capture principles to their development of land above and around MTRC train stations. For example, as can be seen in Figure. C, between 2001 and 2005 property development, investment and management accounted for 62 per cent of MTRC’s revenue.

Figure. C MTRC Average Revenue Sources between 2001-05



Source: Cervero, R & Murakami, J 2009, ‘Rail and Property Development in Hong Kong: Experiences and Extensions’, Urban Studies, Vol. 46, No. 10.

The revenue derived by MTRC from property development is the result of their creation and use of the rail + property (R+P) model; a joint development land use policy which capitalises on the real estate value uplifts resulting from the building of rail infrastructure. Under this model, MTRC does not receive direct subsidies from government to build and operate the city’s train network. Instead the Hong Kong government grants the company

¹¹Cervero, R & Murakami, J 2009, ‘Rail and Property Development in Hong Kong: Experiences and Extensions’, Urban Studies, Vol. 46, No. 10.

exclusive development rights for the land above and adjacent to its stations. Timing is crucial in terms of the return delivered by these development rights. MTRC receives the development rights from the Hong Kong government at a 'before rail' price and sells them at an 'after rail' price. The difference between these two stages is substantial, often enabling MTRC to cover the costs of their initial investment in the station around which the development is built¹². The benefits of the R+P model extend beyond the economic returns it delivers. MTRC planners are increasingly including the principles of TOD within their designs by building mixed residential and commercial developments, which are well integrated with public transport and offer easy pedestrian access to the wider precinct¹³.

The success of the R+P model is demonstrated by examining one of MTRC's newest developments; Maritime Square, an R+P project atop of Tsing Yi Station on the new Airport Express Line. The development was initiated in the planning stages of the line and station, when MTRC was granted the development rights for the land around and above Tsing Yi Station. In line with the R+P model, MTRC was able to capitalise on the real estate value uplift resulting from the building of the Airport Express Line and sell the development rights for a substantial profit. The revenue delivered covered the cost of building Tsing Yi Station and further contributed revenue to building sections of the Airport Express Line¹⁴.

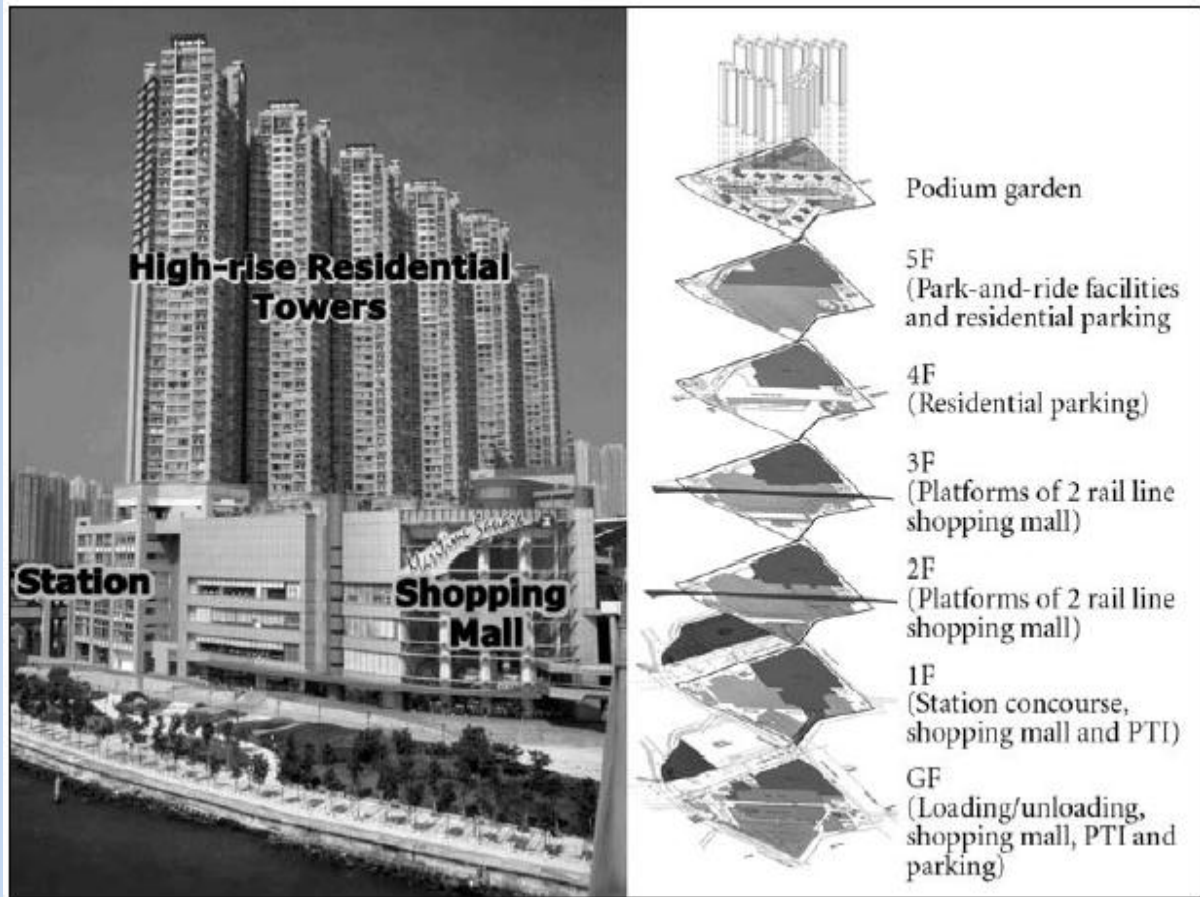
The design of Maritime Square encompassed several TOD principles. As can be seen in Figure. D, Maritime Square is a mixed development with shopping facilities extending from the ground to third floor, the station concourse and lines situated on the first to third floor and a high rise residential tower starting from the fifth floor. The development is well integrated with other modes of transport; there are public transport interchanges and parking facilities on the ground and first floor, and the development enables pedestrian easy access to the surrounding precinct through sky bridges into adjacent building and pedestrian walkways.

¹² Cervero, R & Murakami, J 2009, 'Rail and Property Development in Hong Kong: Experiences and Extensions', *Urban Studies*, Vol. 46, No. 10.

¹³ Ibid.

¹⁴ Ibid.

Figure D. Maritime Square



Source: Cervero, R & Murakami, J 2009, 'Rail and Property Development in Hong Kong: Experiences and Extensions', *Urban Studies*, Vol. 46, No. 10.

MTRC is an extreme example of value capture through joint development and in its entirety may not be applicable in most other jurisdictions. The Hong Kong Government owns the free hold on all land in Hong Kong, meaning that it is able to use the mechanisms of joint development on a large scale¹⁵. The real estate portfolios of most national governments are unlikely to be this large. This means the majority of governments, unlike the Hong Kong Government, will be unable to use joint development mechanisms to fund entire infrastructure projects. Nonetheless the model of R+P serves as a useful example for the NSW Government of how, on a case by case basis, the development of land around train stations could be used as a partial funding mechanism for infrastructure projects.

¹⁵ Enoch, M; Potter, S & Ison, S 2005, 'A strategic approach to financing public transport through property values', *Public Money and Management*, Vol. 25, No. 3.

PRECINCTS

When a new piece of transport infrastructure is built the private property owners in the precinct surrounding the infrastructure are likely to experience additional benefits on top of those delivered to the wider community. For example, when a new railway line is built the wider community will see a rise in productivity as a result of access to improved public transport, but land holders who live near to the new train stations can realise windfall benefits based on their proximity to the new infrastructure¹⁶. Most commonly these benefits are expressed through an increase in property and land values.

Government can share in these value increases by utilising a suite of value capture mechanisms applied to the precincts around train stations and joint developments at stations. The revenue generated from these mechanisms can then be used to fund or finance required infrastructure within the precinct or the state.

The precinct-based value capture mechanisms discussed in this submission can broadly be divided into two categories; those that utilise revenue from existing property taxation streams as a *financing* access mechanism for infrastructure investment and those that levy a new geographically limited tax on residents and businesses in order to generate an additional stream of *funding* for infrastructure projects.

TIF is a partial financing mechanism that allows governments to take tax revenues derived from future increases in property values within a prescribed geographic precinct and use those 'incremental' tax revenue increases to access the financing required to fund the transport infrastructure projects that will lead to (or at least significantly contributed to) this property value appreciation¹⁷ (see Figure E. for an example of the basic TIF model).

Under a TIF project, government will define a TIF district, usually based on the identification of infrastructure that needs to be provided within that district. Government will determine base property tax revenue within the district; this revenue base then constitutes a pre-TIF and pre-infrastructure investment level with all taxation revenue delivered under this base level apportioned to taxing authorities as per usual. The 'above base revenue' projection will then be used by government to borrow funds, usually through bonds tied to the particular investment and use the income stream provided by the TIF mechanism to partially repay the debt.

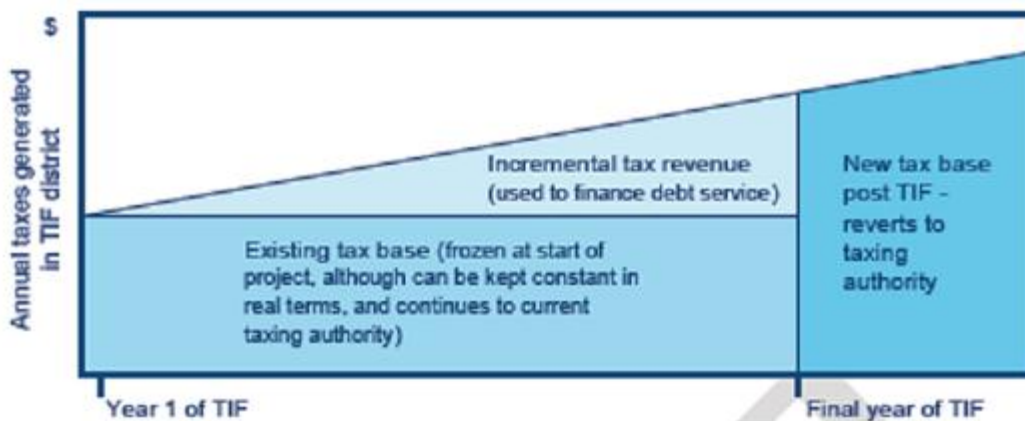
¹⁶ Smith, J & Gihring, T 2006, *Financing transit systems through value capture: an annotated bibliography*, Victorian Transport Policy Institute.

¹⁷ PricewaterhouseCoopers 2008, *Tax Increment Financing to Fund Infrastructure in Australia*.

Over time, as the newly provided infrastructure leads to increased economic activity and higher property values, the quantum of tax revenue generated by the precinct will increase. A portion of the difference between the tax revenue delivered and the base tax level, established at the beginning of the TIF, will be directed to servicing the debt used to fund the infrastructure investment¹⁸.

When the debt has been fully repaid (through a combination of TIF derived revenue and other sources) the TIF district is normally dissolved, but could be re-calibrated to provide a funding stream for further enhancements to supporting infrastructure.

Figure. E A Basic TIF Model



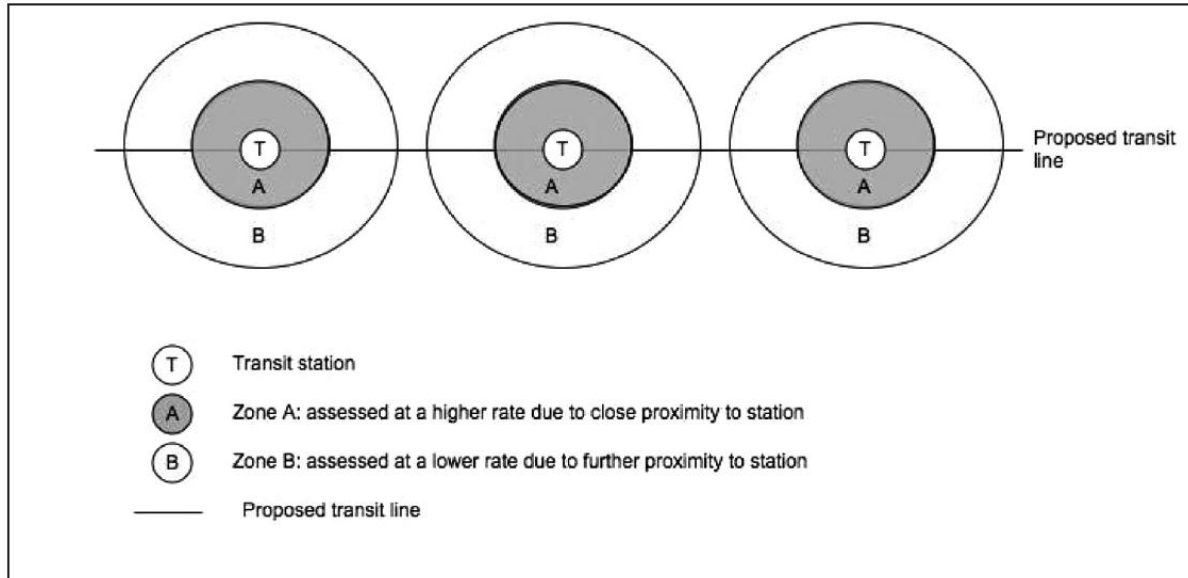
Source: PricewaterhouseCoopers 2008, Tax Increment Financing to Fund Infrastructure in Australia.

In contrast, a BAD is a discrete geographic precinct in which land owners are likely to derive windfall property value increases from a taxpayer investment to enhance transport infrastructure servicing their area. Under a BAD system government can partially recover this real estate value increase by levying an additional tax on property owners within the district and using the revenue to partially fund the infrastructure investment¹⁹. The rate of tax is generally determined by calculating anticipated or actual increases in property value based on proximity to the new transit infrastructure (see Figure. F for an example of how taxation is calculated in a BAD). This new tax is usually collected annually, on top of the local property taxes paid by land owners.

¹⁸ Ibid.

¹⁹ Centre for Transport Studies 2009, *Value Capture for Transportation Finance*, University of Minnesota.

Figure. F Taxation Structure of a BAD



Source: Zhao, Z & Larson, K 2011, 'Special Assessment as a Value Capture Strategy for Public Transit Finance', *Public Works Management & Policy*, Vol. 16, No. 4, pp. 320-340.

TIF and BAD are indicative examples of mechanisms which could be deployed in NSW to generate additional capacity to invest in rail infrastructure. The use of TIF and BAD enable governments to generate revenue to fund needed infrastructure by empowering governments to partially redress the imbalance which occurs when residents in close proximity to new infrastructure derive benefits not shared among the whole community. However, it is important to note that a BAD enables government to generate funding, while a TIF allows government to access financing for an infrastructure project by defining an above base income which would not occur without the project occurring.

The use of TIF encourages a sustained commitment to the building of infrastructure; governments are required to build the planned infrastructure in order to pay back the bonds they sold to finance it. This means governments' commitment to proposed infrastructure is less likely to be eroded by distractions and competing priorities²⁰. However, the introduction of a TIF structure to enable financing of an infrastructure investment does come with unique risks. The revenue derived from TIF is dependent on a projection of future increase in property values within an area; as local property value can be impacted by broader market

²⁰ PricewaterhouseCoopers 2008, Tax Increment Financing to Fund Infrastructure in Australia.

activity the level of taxation revenue derived from the district can be uncertain – leading to a potential risk the revenue targets may not always be realised²¹.

In contrast, the implementation of a BAD sees the government implementing a new tax that provides additional revenue – where TIF simply defines and partitions ‘above base’ increases within an existing income stream²². As a BAD is a new tax, government has greater control over its design and implementation. For example a BAD can take many different forms, it can be implemented as an additional tax on top of property taxes or it can be levied as a local goods and service tax on sales within a prescribed geographic precinct around new infrastructure²³.

TIF, BAD and other forms of taxation-based value capture mechanisms present the NSW Government with a potential suite of tools which can be implemented in appropriate areas to expand the potential funding envelope for transport infrastructure investment. However, it is important to note that in NSW the revenue created by these mechanisms is collected at the Local Government level, while the provision of state significant infrastructure falls under the jurisdiction of the NSW Government. Consequently, the effective implementation of value capture structures in NSW is likely to require a re-alignment of the way some taxation streams are levied and distributed in specified areas.

²¹ Centre for Transport Studies 2009, Value Capture for Transportation Finance, University of Minnesota.

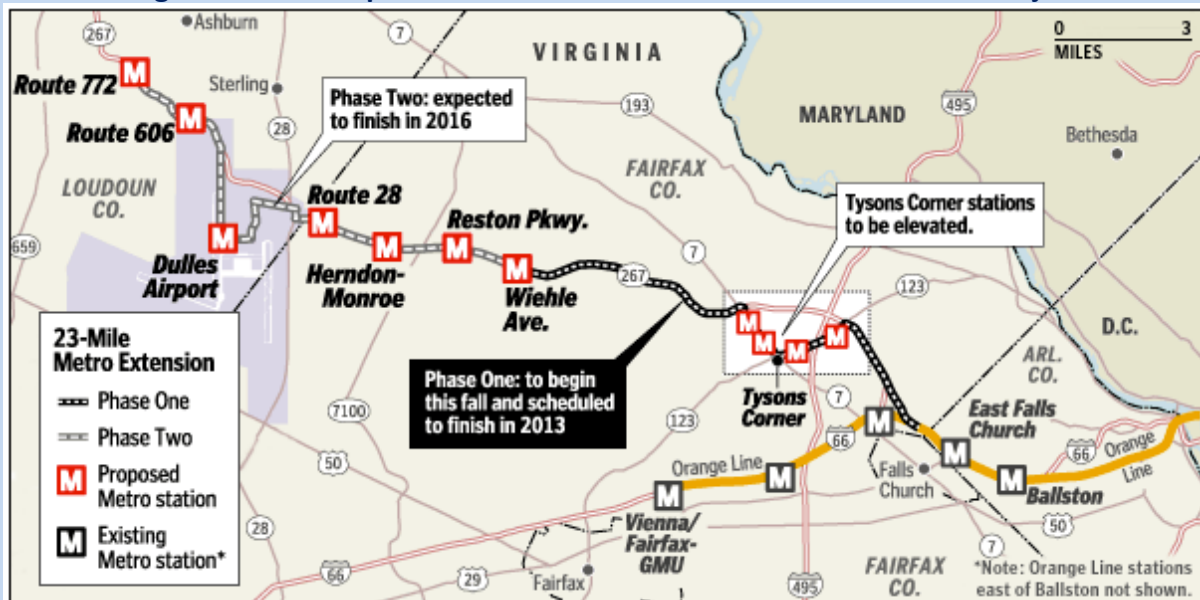
²² Ibid.

²³ Ibid.

BEST PRACTICE CASE STUDY: WASHINGTON METROPOLITAN AREA TRANSPORTATION AUTHORITY (UNITED STATES)

The Washington Metropolitan Area Transportation Authority (WMATA) is a state transit agency using a suite of value capture financing mechanisms to fund infrastructure projects. Unlike many other state transit agencies, the WMATA does not have a dedicated revenue source, aside from fare box revenue; in 2007 state and Federal government funds only comprised 37 per cent of the agency's revenue base²⁴. As a result the WMATA has come to rely on a number of innovative funding mechanisms in order to maintain and expand their network.

Figure G. The Proposed Route of the Dulles Corridor Metrorail Project



Source: Metropolitan Washington Airports Authority

Most recently, WMATA has utilised BADs to help fund the Dulles Corridor Metrorail Project. The project is a 37 kilometre extension of the existing Metrorail, which will service Tyson's Corner and the Reston Herndon Area, Virginia's two largest employment's centres and provide a one seat connection from Dulles Airport to downtown Washington²⁵. The project, which is being completed in 2 phases (see Figure. G) is budgeted to cost US\$5.2 billion with phase 1 costing \$2.7 billion, and phase 2 costing \$2.5 billion²⁶. Construction is currently underway on Phase 1 of the project.

²⁴ Infrastructure Management Group 2009, *Evaluating Innovative Financing Opportunities for Miami-Dade Transit*.

²⁵ Dulles Corridor Metrorail Project 2012, *Dulles Metrorail Project Overview*, Available at: <http://www.dullesmetro.com/about/>

²⁶ Infrastructure Management Group 2009, *Evaluating Innovative Financing Opportunities for Miami-Dade Transit*.

Figure H. Expected Funding Sources for the Dulles Corridor Metrorail Project

Funding Source	Phase 1	Phase 2	Total	Percentage of Total
MWAA—Dulles Toll Road	\$1,203,995	\$1,562,776	\$2,766,771	52.6%
MWAA—Aviation	-	215,484	215,484	4.1%
FTA	900,000	-	900,000	17.1%
Commonwealth of VA	251,700	23,300	275,000	5.2%
Fairfax County (BAD)	400,000	446,167	846,167	16.1%
Loudoun County	-	252,273	252,273	4.8%
TOTAL SOURCES	\$2,755,695	\$2,500,000	\$5,255,695	100.0%

Source: Infrastructure Management Group Inc.

As can be seen in Figure H. just over 16 per cent of the entire project's funding is coming from the creation of a BAD in Fairfax County. For phase 1 of the project, the BAD, known as the Transportation Improvement District, has resulted in a tax levied on commercial and industrial properties near to stations and the land running along the corridor in the Fairfax County. The imposition of this BAD was voluntary, a petition of 51 per cent of commercial and industrial real estate property owners was required for the BAD to be approved²⁷. Once approved the BAD resulted in all owners of commercial or industrial property, within the BAD, charged 22 cents of every \$100 of assessed value increases in the real estate value of their properties.

As indicated by Figure H. the use of a BAD was not sufficient to finance the entire project. Nonetheless the project emphasises that the use of these mechanisms, alongside a suite of other funding sources and mechanisms, can play an important role in generating the needed funding for a project. Given the huge size of most transport infrastructure projects, particularly rail, the use of these mechanisms represents an important opportunity to access new sources of funding and financing which largely hasn't been explored in NSW.

²⁷ Ibid.

RAIL CORRIDORS

Rail Corridors; that is the land immediately adjacent to rail lines and owned by government, are likely to include parcels and strips of un-utilised or under-utilised land. These under-utilised assets may include now un-used rail buildings and sidings, land preserved in a corridor for future capacity expansions and other sections of un-used land in the corridor.

Some of this land may be suitable for uses beyond the traditional realm of rail corridors. Making it available to private sector operators with suitable uses may provide an opportunity for tax payers to 'sweat the asset' and derive additional income from the corridor.

For example, in the context of the Federal Government rolling out the NBN network and the private sector looking for less disruptive corridors than roadsides to lay their utilities, opportunities may exist for the NSW government to sweat their rail assets by allowing utility providers to locate utilities above and below ground, in the parcels of land running alongside rail corridors.

The colocation of utilities along rail corridors would have several benefits for NSW. First, as the utilities are being installed on one stretch of public land the administrative process is likely to be much quicker, as the private sector will not need to negotiate access for multiple lots of private land. Second, if the laying of rail-track along the corridor coincides with the installation of utilities, economies of scale can be created as the construction for each can occur simultaneously. Third, in comparison to utilities located near high use road corridors, the maintenance of the utilities along rail corridors will cause minimal congestion for other forms of transport. Finally the colocation of utilities will enable the NSW government to generate revenue from previously unused land.

Ontrack, the New Zealand passenger rail provider allows utilities companies to install and maintain gas pipes, electricity cables and phone lines along their rail corridors. Access to the corridor for utilities companies is done using a permit system and decisions regarding access are based on the economic and social value it will deliver for the state.

The NSW Government should invite the private sector to bid for the opportunity to use under-utilised land within and adjacent to existing rail corridors – if necessary this could be executed through an unsolicited bid framework in order to attract innovative (but compatible) use of the assets. Of course, the use of land within the rail corridor should not compromise the principle function of delivering reliable and efficient rail services, nor should it occupy corridors to the extent that future expansion of the line is impeded.

POLICY AND REGULATORY FRAMEWORK

The implementation of innovative land use and taxation policies will only occur if it is supported by a policy and regulatory framework which facilitates their application. This framework is necessary in order to determine both where these policies should be implemented and whose jurisdiction the implementation of these policies falls under.

There is a reciprocal link between land use and transport demand; the use of land for commercial or residential purposes will motivate transit journeys to and from locations and the availability of rapid and reliable public transport to a location, will make the land around the location more valuable. The broad spectrum of value capture principles and mechanisms capitalise on this link as they rely on there being current or future demand for transport and the land around transport corridors. The application of these policies therefore cannot happen everywhere, instead decision regarding the location of their use need to be made in reference to a long term strategic plan, which integrates transport investment decisions with broader strategic plans regarding housing and employment.

The implementation of the strategies outlined in this submission requires detailed forward planning which integrates land use and transport provision. They also require a governance structure which leverages governments' strategic planning capabilities to provide investment certainty for the private sector.

Under existing agency structures in NSW, the implementation of value capture policies would likely fall under the jurisdiction of a number of different government departments and agencies. The use of land around rail corridors and station precincts could involve the Department of Planning, Transport for NSW, NSW Treasury, RailCorp, Landcom and the Sydney Metropolitan Development Authority (SMDA). Each of these organisations will have a different operational focus in terms of implementing value capture policies.

It is clear that, in isolation, each department would have limited capacity to implement the value capture and corridor utilisation policies outlined in this submission. Each agency and department has a primary function meaning greater corridor utilisation and value capture are likely to be a secondary concern. However, if a multi-department approach was taken the result could be fragmented and chaotic.

Implementation of the mechanisms outlined in this paper would benefit from a single agency focus. A lead agency, with the capacity to both plan for and implement value capture and utilisation policies around NSW rail corridors, would provide the focus to design and deliver a whole-of-government strategy.

The agency, which is likely to be formed from the re-alignment of an existing agency - would be charged with developing a strategic plan, aligned to state-wide infrastructure and land use plans, to identify areas most appropriate for joint development, TOD and value capture mechanisms (such as TIF and BAD) and oversee the delivery of those programmes. The agency is likely to be equipped with planning and implementation powers and work with the private sector to deliver large-scale development plans.

In cases of joint development it would be the role of the agency to develop strategic plans and acquire planning approval to build on the land. The agency would then engage private sector participants to bid for and deliver the development projects.

The lead-agency would be responsible for the interface with private sector deliverers and other Government agencies whilst also being the administrative agency for the implementation of the value capture options outline in this submission.

Under this governance structure, NSW would be well placed to capitalise on the opportunities identified in this submission to increase the capital available for investment in rail infrastructure.

RECOMMENDATIONS

Infrastructure Partnerships Australia thanks the Committee for the opportunity to comment on this important policy issue. Providing the funding capacity to deliver vital transport infrastructure is both a looming and present challenge for NSW – none of the strategies put forward in this paper is a silver-bullet to overcoming the transport infrastructure conundrum faced by the State; but together they provide a suite of tools that could provide additional capacity to deliver the infrastructure investments NSW requires if it is to maintain its position as Australia’s largest state economy.

To achieve greater utilisation of rail corridors and maximise States opportunity to fund and deliver vital transport links, the infrastructure sector recommends:

- **The Legislative Assembly Committee on Transport and Infrastructure should recommend the application of appropriate value capture mechanisms for greenfield and brownfield rail infrastructure projects in NSW.**
- **The Legislative Assembly Committee on Transport and Infrastructure should encourage greater use of Transit Oriented Development principles in the planning of mass transit hubs** – when implemented with value capture mechanisms this will have the dual effect of increasing the utility of the transit solution and providing an enhanced funding mechanism for that infrastructure investment.
- **The Legislative Assembly Committee on Transport and Infrastructure should recommend Government invite approaches from the market to exploit currently under-utilised land in existing rail corridors for uses compatible with the continued provision of rail services.**
- **The Legislative Assembly Committee on Transport and Infrastructure should recommend that a single agency lead a whole-of-government approach to station and precinct development opportunities** – the agency should be equipped with appropriate powers and capabilities to deliver a strategic plan, gain planning approval, engage private sector developers and implement the value capture mechanisms outlined in this submission.
- **The Legislative Assembly Committee on Transport and Infrastructure should recommend that this new agency explore whether value capture mechanisms, such as joint development, can be deployed to enable the upgrading of five CBD rail stations (Redfern, Central, Town Hall, Circular Quay and Martin Place) on the City Circle line.**



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Infrastructure Partnerships Australia

A division of Advocacy Services Australia Limited
Level 8, 8-10 Loftus Street, Sydney NSW 2000

T: 02 9240 2050 F: 02 9240 2055

E: policy@infrastructure.org.au

www.infrastructure.org.au